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# CREDIT CONTROL AND DEBT COLLECTION POLICY

## **CREDIT CONTROL AND DEBT COLLECTION POLICY**

### **1. INTRODUCTION**

It is vital to the long term financial viability of any Municipality that it collects the revenues (such as levies, tariffs, rates and taxes) due to it for services rendered. In terms of Section 96 of the Local Government Municipal Systems Act 2000, a Municipality:

- Must collect all money that is due and payable to it, subject to this Act and any other applicable legislation; and
- For this purpose, must adopt, maintain and implement a credit control and debt collection policy, which is consistent with rates and tariff policies and complies with the provisions of this Act.

This means that appropriate credit control and debtors mechanisms must be maintained. The services provided include water, electricity, refuse and sewerage removal, municipal roads, etc.

### **2. OBJECTIVE**

2.1 The objective of a credit control and debt collection policy is to define a framework within which effective procedures could be developed to identify defaulters, and ensure that their failure to meet their financial obligations towards the Council, would be treated in a consistent, fair and effective manner.

2.2 In terms of Section 97 of the Local Government Municipal Systems Act 2000, a credit control and debt collection policy must provide for:

- Credit control procedures and mechanisms;
- Debt collection procedures and mechanisms;
- Provision for indigent debtors that is consistent with its rates and tariff policies and any national policy on indigents;
- Realistic targets consistent with:
  - Generally recognised accounting practices and collection ratios; and
  - The estimates of income set in the budget less an acceptable provision for bad debts.
- Interest on arrears, where appropriate;
- Extensions of time for payment of accounts;
- Termination of services or the restriction of the provision of services when payments are in arrears;

- Matters relating to unauthorised consumption of services, theft and damages; and
- Any other matters that may be prescribed by regulation in terms of section 104 of the Local Government Municipal Systems Act, 2000.

2.3 A credit control and debt collection policy may differentiate between different categories of ratepayers, users of services, debtors, tax services, service standards and other matters as long as the differentiation does not amount to unfair discrimination.

2.4 The result of an effective policy would improve the recovery rate of the Council's debtors and would contribute to the realisation of the Constitutional objective of providing basic services for human dignity.

### **3. RESPONSIBILITY/ACCOUNTABILITY FOR CREDIT CONTROL AND DEBTORS**

3.1 Section 10G(2)(a)(ii) of the Local Government Transition Act No. 209 of 1993, as amended, states that "the Chief Executive Officer / Municipal Manager of a Municipality shall cause to be kept in the accounting records a revenue account which shall be credited with all monies which accrues to and is received by the Municipality".

3.2 Section 10(G)(2)(f) of the Local Government Transition Act No. 209 of 1993, as amended, further states that "if a person who is or was in the employ of a Municipality causes or caused the Municipality a loss or damage because he or she failed to collect money owing to the Municipality for the collection of which he or she was responsible, the Municipal Manager of that Municipality, or, if the Municipal Manager was responsible for such loss or damage, the Council, shall determine the amount of such loss or damage and take disciplinary action where possible and in appropriate cases recover the loss or damage".

3.3 It is clear therefore that the determination and application of credit control measures are the responsibility of the Municipal Manager. However, the day-to-day handling of credit control and debtors is the Chief Financial Officer's or his designator's responsibility. It is, however, suggested that Council be consulted in the determination of the credit control measures to recover budgeted income. If there is any undue interference by a Council or Councillor, which prohibits the Municipal Manager from executing his responsibilities in this regard, he should report this to the relevant MEC.

3.4 The Municipal Manager and his/her designate must take effective and appropriate steps to collect all money due to the institution including as necessary:

- Maintenance of proper accounts and records for all debtors, including amounts received in part payment; and

- Referral of a matter to the State Attorney, where economical, to consider a legal demand and possible legal proceedings in a court of law.

#### **4. CUSTOMER CARE RESPONSIBILITY**

4.1 In terms of Section 95 of the Local Government Municipal Systems Act 2000, in relation to the levying of rates and other taxes by a Municipality and the charging of fees for municipal services, a Municipality must, within its financial and administrative capacity:

- Establish a sound Customer Management System that aims to create a positive and reciprocal relationship between persons liable for these payments and the Municipality itself;
- Establish mechanisms for users of services and ratepayers to provide feedback to the Municipality or other service provider regarding the quality of the services and the performance of the service provider;
- Take reasonable steps to ensure that users of services are informed of the costs involved in service provision, the reasons for the payment of service fees, and the manner in which monies raised from the service are utilised;
- Where the consumption of services have to be measured, take reasonable steps to ensure that the consumption by individual users of services is measured through accurate and verifiable metering systems;
- Ensure that persons liable for payments, receive regular and accurate accounts and indicate the basis for calculating the amounts due;
- Provide accessible mechanisms for those persons to query or verify accounts and metered consumptions, and appeal procedures which allow such persons to receive prompt redress for inaccurate accounts;
- Provide accessible mechanisms for dealing with complaints from such persons, together with prompt replies and corrective action by the Municipality;
- Provide mechanisms to monitor the response time and efficiency in complying with the above point; and
- Provide accessible pay points and other mechanisms for settling accounts or for making pre-payments for services.

#### **5. CREDIT CONTROL AND DEBT COLLECTION PRINCIPLES**

5.1 Considering the socio-economic and other conditions presently prevalent in South Africa, such as the level of unemployment and poverty, the enforcement of payment for services will be ineffective if it is not based on acceptable principles. Furthermore the ability to pay has to be separated from indigent members of the community.

5.2 The following principles should be considered:

- 5.2.1 Enforcement of the credit control and debt collection policy is a local matter subject only to legislation, i.e. the policy and its application should cater for the specific circumstances of the community to which it relates.
- 5.2.2 The Municipal Manager, who is entrusted with the determination and execution of credit control measures, must report to the Council. This would ensure that local measures are consistent with nation wide initiatives.
- 5.2.3 Enforcement and policy making must be independent to ensure accountability. This will enable a review process to identify if the actual policy is a problem or rather if the application of the policy is failing.
- 5.2.4 Credit control and debtors procedures must be understandable, uniform, fair and consistently applied. It is important to ensure that members of the community understand the procedures so that there would be fewer disputes when the procedures are applied. A fair, uniform system would ensure that any two community members in exactly the same situation would be treated in exactly the same way. This will enhance the community's perception of the Municipality and aid in the acceptance of the procedures.
- 5.2.5 Credit control must be effective, efficient and economical. To be effective the credit control policies and procedures must result in the improvement of the recovery rate of the Municipality's debtors.
- 5.2.6 The measures taken must be sustainable in the long term. Policies and procedures that are adopted should not be "quick fix" solutions but should lay the foundations of a system that can continuously, effectively address credit control issues.
- 5.2.7 A proper Indigent policy must be in place. Such a policy will enable the Municipality to differentiate between those community members that cannot pay from those that simply don't want to pay.

## **6. CREDIT CONTROL AND DEBT COLLECTION POLICY**

### **6.1 Debtors**

It is important that all monies owing to the Council are correctly reflected in the debtors system. The following control measures are necessary:

- A well managed debtors and banking control system will ensure that funds owed to the Council, are received and banked; and
- It is also important to review debt collection performance by comparing the debtors outstanding in relation to total turnover and then comparing this to previous financial

years, in order to determine whether the debt collection process is deteriorating or improving.

6.2 Debtor Collections:

6.2.1 All funds due to the Council must be collected timeously and banked on a daily basis. Cash left in the safe which poses a security risk, could result in higher insurance premiums to cover the additional risk and does not earn interest. Large sums of money received must be deposited into the bank account on the same day the payment is received (IMFO Handbook For Municipal Financial Officers May 1993, paragraph 2.1.1).

6.2.2 It is important that all monies owing to the Council are correctly reflected in the debtors system. The following control measures are necessary (IMFO Handbook For Municipal Financial Officers May 1993, paragraph 2.1.2):

- A well managed debtors and banking control system will ensure that funds owed to the Council are received and banked; and
- It is also important to review debt collection performance by comparing the debtors outstanding in relation to total turnover and then comparing this to previous financial years, in order to determine whether the debt collection process is deteriorating or improving.

6.2.3 All moneys collected by the Council must be banked in the bank account of the Council (IMFO Handbook For Municipal Financial Officers May 1993, paragraph 2.1.1).

6.2.4 Moneys collected by some other agency on behalf of the Council shall be paid over to the Council or deposited in the bank account of the Council in a manner prescribed by the Municipal Manager (IMFO Handbook For Municipal Financial Officers May 1993, paragraph 2.1.1).

6.2.5 The receipt of all monies collected by the Council shall be acknowledged forthwith by the issue of a numbered official receipt (IMFO Handbook For Municipal Financial Officers May 1993, paragraph 2.1.1).

6.3 Accounts:

6.3.1 Accounts must be prepared the first day after month end and must be posted to the consumers immediately thereafter as the consumer has 25 days to pay from date of account (Electricity Supply Bylaws and Tariffs, section F.2, paragraph 17(2)).

The account/invoice must be printed on a standard form which must contain the following details:

- Consumer name;
- Consumer account No.;
- Consumer postal address;
- Residence/Erven details to where the service(s) have been supplied.

- All details of services that have been supplied i.e. electricity, water, rates, refuse removal, etc.;
- Any outstanding balance from the previous month;
- Any reconnection/disconnection charges that may have been charges; and
- Any interest or fines that may have accrued.

6.3.2 Age Analysis and Overdue Accounts (Local Government Municipal Systems Act 2000, section 96):

- An age analysis must be printed on a regular basis. Any amounts outstanding over 30 days must be followed up immediately. Consumers should pay their accounts within 25 days from the date of the account.
- When accounts are printed at the end of each month, the total of the accounts printed must agree to the age analysis. Any difference must be reconciled immediately and corrected.
- Any amounts over 30 days must be reported to the Chief Financial Officer or relevant Engineer i.e. Water Engineer. And the consumer must be notified that should the account not be paid in 24hours the service(s) will be disconnected.
- The consumer will be held liable for all disconnection and reconnection charges.
- A consumer's supply may not be reconnected until such time as the consumers account is settled in full including any reconnection/disconnection charges and interest that may have been accrued.
- Should a consumer fail to pay their account even once the service has been terminated, the credit control and debt collection policy must be implemented to recover the outstanding amounts due.

6.4 Receipts and Clearing of Accounts (Local Government Transition Act, 209 of 1993, as amended, Section 10G(2)(c)):

- 6.4.1 The person responsible for receipting of monies received from debtors must not be the debtors clerk. The two positions must be kept separate and filled by different people. This is done in order to reduce the risks of fraud within the Municipality.
- 6.4.2 All receipts must be correctly allocated to the relevant debtors account and further more the amount must be correctly allocated to the correct services that are been paid for.
- 6.4.3 Any unknown receipts will be left temporarily in a debtors receipts clearing or suspense account. These amounts must be traced to deposits or remittances and must be followed up by contacting the payee or bank where applicable, to verify for what or whom the payment was received.
- 6.4.4 The debtor's receipts clearing or suspense accounts must be cleared at least on a weekly basis.
- 6.5 Arrear accounts

The following arrangements for the payment of arrear accounts should be considered:

- 6.5.1 If the overdue balance contains amounts which have been outstanding for longer than twelve months, there should be a minimum amount of the total overdue balance that will be accepted as an initial payment. The Municipal Manager may decide on an arrangement to settle the balance in equal instalments. The maximum period is twelve months within the financial year.
- 6.5.2 If the overdue balance contains amounts which have been outstanding for less than twelve months, there should be a minimum amount of the total overdue balance that will be accepted as an initial payment. The balance should be settled in equal instalments over a maximum period of six months.
- 6.5.3 A debtor who, without notifying the Municipal Manager or his/her designate (Chief Financial Officer), fails to comply with any arrangements, is automatically excluded from the right to be considered for a further extension. The Municipal Manager is not obliged to notify the debtor of the failure.
- 6.5.4 If after continuation, the debtor again applies for arrangement, the Municipal Manager or his/her designate may consider this. However, if services have been discontinued or restricted, such further arrangement will exclude the continuation of the service until full payment has been received by the Municipality.
- 6.5.5 Alternative payment arrangements may be negotiated under set conditions, which the Municipal Manager may determine. An example / guideline of an alternative payment arrangement would be:
- Income between R0 and R950: In terms of Councils Indigent policy plus the balance over a maximum period of 36 months;
  - Income between R951 and R1500: Immediate payment of 30% of the arrears plus the balance over a maximum period of 24 months;
  - Income between R1501 and R3000: Immediate payment of 50% of the arrears plus the balance over a maximum period of 12 months; and
  - Income of R3001 and more: Immediate payment of the full amount outstanding.
- 6.5.6 Written confirmation of alternative payment arrangements will specify the due dates, the disconnection process, the reconnection processes, penalties, etc. The condition that any future monthly accounts are paid by the standard due date will be automatically included.
- 6.6 Actions against Defaulters.



As the accrual system is used to record income it requires that all income must be collected to finance expenditure. The principle is accepted that recurring income must finance recurring expenditure within the budget cycle of twelve months. The debtors turnover rate should not at any time exceed the national norm of forty two days.

In terms of the Council's Financial Regulations any payments received from debtors for service delivery by the Council shall be used to off-set debts to the Council in the following suggested order:

- Instalment – dwelling;
- Instalment – stand;
- Sundries;
- Additional – deposit;
- Rates;
- Penalty on arrear rates;
- Collection charges on arrear rates;
- Interest on arrear sewerage;
- Refuse removal;
- Water;
- Sewerage;
- Electricity; and
- VAT on vat able services will be proportionate among the applicable services.

Non-payment of accounts will be dealt with as follows:

#### 6.6.1 Metered Connections.

- Electricity and Water:

Services will be discontinued with immediate effect if payment arrangements are not adhered to. Alternative arrangements need to be in place e.g. in the case of water provisions such as communal stand pipes. Should it be noted that consumption is registered after disconnection, the connection will be removed at the owners cost and will not be reinstated until such time the full outstanding cost is paid to the Council plus the additional service connection and consumer deposit required. There must be no political interference in the process being followed by the Municipal Manager in the collection of tariffs (Municipal Finance Management Bill).

- Sewerage, Refuse Removal, Rates and Sundries:

The Council attorney's will be instructed to institute legal action and to take steps to dispose by public auction of the applicable properties in lieu of outstanding rates and charges; and

- Land and Dwelling Instalments:

The deed of sale or lease agreement will be cancelled and eviction orders will be obtained. Outstanding amounts will be recovered through legal action and/or listing with the Information Trust Corporation (Credit Bureau).

#### 6.6.2 Areas where no individual meters have been installed:

- If the cumulative payment is for example less than 35% then:

The bulk services for streetlights, water, refuse removal and sewer services will be terminated immediately. The Council's attorneys will take legal steps to dispose of the property of debtors with outstanding amounts for rates, service charges and other sundry charges. Individuals with outstanding land and dwelling instalments will be served eviction orders and deed of sale or lease agreements will be cancelled. Outstanding amounts will be recovered through legal action and/or listing with the Information Trust Corporation (Credit Bureau);

- If the cumulative payment is for example less than 65%, then:

The bulk service for streetlights, water and refuse removal will be terminated immediately; and

- If the cumulative payment is for example less than 85%, then:

The provision of the bulk service for streetlights and refuse removal will be terminated.

#### 6.7 Consumer Deposits.

Consumer deposits shall on an ongoing basis be adjusted/recalculated to cover at least two and a half times the estimated consumption. The minimum deposits required shall be calculated in accordance with the debtors and deposits ratio as applicable during a specified month of each year.

#### 6.8 Debtors other than Consumer Debtor.

Amounts due to the Council for any service rendered shall be due and payable when the service is rendered. Notwithstanding any disputes that may arise, the outstanding amounts

will bear interest and all amounts outstanding after 90 days shall be handed over for collection.

6.9 Interest.

Interest at the rate as determined by the Council (normally one percent higher than the overdraft rate) in accordance with the Municipal Systems Act 32, 2000 will be charged on all arrear amounts that is on the day following the final date for payment indicated on the account. For this purpose part of a month will be treated as a full month.

6.10 Credit Bureau Listing.

The names of debtors in accordance with the Councils records will, after Court judgement, be automatically be listed with credit bureaus simultaneously with the handing over of amounts for collection.

6.11 Illegal connections and tampering with measuring devices

The connection will be removed at the owners cost and will not be reinstated until such time the full outstanding cost is paid to the Council plus the additional service connection and consumer deposit required in accordance with the Council's Tariff of Charges and Bylaws.

6.12 Agents, attorneys and other collection agents

All external agents acting on behalf of a Municipality are to be named, together with their details and contact information. Under no circumstances may agents negotiate terms, extend payment periods or accept cash on behalf of a Municipality, unless specifically instructed in writing to do so. The liability for the cost of legal action and other credit control actions must, as far as is legally possible, be for the account of the debtor.

6.13 Disclosure

In terms of GAMAP 100 paragraphs 87 and 88:

- The aggregate debtors should be shown on the face of the balance sheet;
- The debtors should be classified per category in the notes to the balance sheet; and
- The bad debt provision should be set-off against debtors, and the basis of the provision should be disclosed in the notes.

**7. WRITING OFF OF BAD DEBTS (LOCAL AUTHORITIES ORDINANCE SECTION 172)**

Any debt written off must:

- 7.1 Only be written off after all reasonable steps have been taken to recover the debt, in accordance with this policy, and the Council has convinced itself that:
- 7.1.1 Recovery of the debt would be uneconomical;
- 7.1.2 Recovery would cause undue hardship to the debtor or his/her dependants; and
- 7.1.3 It would be an advantage to the Municipality to effect a settlement of its claim or to waive the claim.
- 7.2 Be disclosed in the annual financial statements, indicating the policy in terms of which the debt was written off.

It must be noted that rates cannot be written off.

**8. EVICTION/REHOUSING OF INDIGENT TENANTS**

- 8.1 The eviction of tenants who are in arrears with their accounts, may be problematic in view of the different interpretations of current legislation such as the Prevention of Illegal Eviction from and Unlawful Occupation of Land Act (Act 19 of 1998).

It is accepted that some of these tenants cannot meet their obligations due to financial circumstances beyond their control.

Many tenants have developed a history of non-payment due to their financial plight and therefore appropriate re-housing of such tenants would be a more acceptable alternative to evictions

Hence, Council should:

- Offer alternative affordable accommodation, if possible, to those tenants of Council rental units who can no longer afford rents and service charges, and who are in arrears due to their financial circumstances;
- Ensure that these indigent tenants meet qualifying criteria as specified for housing subsidy projects;
- Note that due to the lengthy period of occupation, some indigent tenants may not accept an offer of alternative, more affordable accommodation. In such instances, court procedures will need to be initiated;
- Note that there are households who qualify for the National Housing Subsidy Scheme's capital subsidy according to their income but for whom ownership is inappropriate and for

whom affordable rental options should be provided. For every evicted indigent household that is taken up within housing subsidy projects, the Council will be given the right to select qualifying applicants for the allocation of units which have been vacated by the evictees. The Council will establish a list of eligible beneficiaries for such allocations. This process must be transparent; and

- Any other measure that needs to be taken in relation to eviction and re-housing will be determined by the Council.

## **9. FINANCIAL IMPLICATIONS**

If extended payment periods are negotiated then the Municipal Manager should bear in mind that this arrangement would require a dedicated funding source. Normally a source of this nature will be created by setting aside a contribution from the operating budget, which will appear on the first sheet of the Balance Sheet of the Municipality as a contribution to either working capital or bad debts provision. There is a limit that may be set aside for this purpose. The extensions of payments will also affect the turnover rate of debtors negatively, which will have an influence on the overall credit worthiness of the Municipality. The Municipality should strive to ensure that, as much as possible, income will be collected within the financial year.

